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HD **Strong demand and sky-high pricing cause energy security issues across the globe; Short-term solutions designed mainly to keep incumbents in office this year are unlikely to build global energy structures that last**

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CALGARY

Gasoline is expensive everywhere, but spare a thought for drivers in Mendocino, Calif., where fuelling up at one station last week cost US$9.60 per gallon. Sometime this weekend the United States will pass a price threshold as US$5 per gallon becomes the national average.

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The situation is unlikely to change quickly, neither in oceanside communities north of San Francisco nor anywhere else. West Texas Intermediate oil will average US$137 a barrel in the third quarter of this year, Goldman Sachs said in its forecast this week. For context, WTI – the benchmark for oil pricing in North America – is now above US$120 a barrel. Economists and analysts point to an oil price of US$140 to US$150 a barrel as a stressor so significant that it's likely to tip economies into recession.

Strong demand and sky-high pricing are causing energy security issues across the globe, with the situation particularly dire for the developing world. In the U.S., the country that consumes one of every five barrels of oil on the planet, fuel costs are playing an outsized role in inflation rates that have hit 40-year highs.

It's become the major preoccupation of U.S. politicians, especially Democrats down in the polls in a midterm election year. U.S. President Joe Biden – who at one time pledged to make Saudi Arabia an international pariah for its record on human rights and extrajudicial execution – is now likely to travel to the Middle East next month for a global oil-supply strategizing session with Crown Prince Mohammed bin Salman. As Ontario and Alberta have done, a number of U.S. states are implementing temporary gas tax holidays to give consumers some relief.

These are muddled and politically awkward policy responses. But it fits with the messaging from the Biden administration and others that this energy crunch is almost wholly caused by supply losses associated with Russia's invasion of Ukraine and is at worst a situation that will last several years. Climate envoy John Kerry, for instance, speaks about increased domestic oil and gas production having to be "short term, to fill a gap."

However, there's also a risk that, like inflation, the fossil fuel supply crunch is too quickly being labelled "transitory." And if Western energy goals also include making sure that North America has reliable and affordable oil and natural gas supplies in the medium term – including for overseas export to displace Russian products – there's a disconnect.

“The supply side has collapsed, but demand hasn’t,” said Amrita Sen of London-based energy research firm Energy Aspects.

This issue is key if you stay awake at night worrying about climate change, or fuel costs – or both. The current disruption in global energy markets can and hopefully will stimulate a shift to renewable energy sources. But even those politicians most committed to climate action can’t ignore energy security.

The reasons for high oil and fuel prices are complex and intertwined with the disruption to global energy trade caused by the war in Ukraine. But it’s also about robust global demand versus limited supplies, as well as a lack of refinery capacity. Some, like Ms. Sen – speaking at the Global Energy Show in Calgary this week – say it’s about the world being focused on ESG measures even while global demand for oil is 100 million barrels a day and rising.

And as much as some political leaders in the U.S. – and federal Environment Minister Steven Guilbeault here – would argue (or hope) that the cause of high energy prices is primarily the war in Europe, there’s much more to the situation. That view ignores the fact that the world was struggling to meet oil and gas demand late last year, when everyone still thought President Vladimir Putin was bluffing about Russia’s expansionist plans.

Ms. Sen said Western governments need to lay out more certain, coherent expectations for energy companies if they don’t want untenable price spikes and contradictions. Those governments, she added, are “asking for energy security from oil producers, gas producers, and saying we need production right here, right now,” but aren’t willing to commit to anything for more than a few years. That doesn’t help spur private-sector investment.

For instance, the Biden administration is mulling a plan to reopen now-mothballed refineries – those multibillion-dollar facilities that turn oil feedstock into usable fuels – to try to lower gasoline and diesel prices. At the same time, LyondellBasell, the massive Rotterdam-based chemical company, has announced that it will close its Houston refinery by the end of 2023, a move that “advances the company’s decarbonization goals.”

Ms. Sen added that every Western government program to subsidize or cut the price of gasoline or natural gas for consumers artificially stokes consumer demand even further.

“Are you serious about energy transition? If you are, you have to tell people it’s going to be expensive, and we need to make changes.”

The U.S. handling of its energy security issues is a point of contention for Canadian oil producers, who already supply more than half of all of America’s oil imports. When Alberta Premier Jason Kenney appeared before the U.S. Senate committee on energy and natural resources in Washington last month, he said he found it “inexplicable” that the U.S. government is focused on encouraging additional OPEC production rather than looking to Canada.

But OPEC, for all its perils, can more easily ramp up production and then ramp down again. You don’t need to expand pipelines or other infrastructure to ship Saudi oil across the Atlantic. All of that is key for the Biden administration.

High oil prices and energy scarcity are indomitable social and economic problems for policy makers. At the same time, our carbon emissions and heavy consumption patterns threaten life on Earth.

There are realistic – not always fun and pretty – potential solutions that address both sides. They include strong conservation measures, building liquefied natural gas facilities that some day might be converted to move hydrogen molecules, and making North American LNG export terminals financially feasible by shipping to Europe this decade and next but in the longer term focusing on Asia. It will also be important to advance carbon capture and make sure energy companies follow through with pledges to drastically reduce methane emissions this decade and with longer-term commitments to get their operations to net zero.

But short-term solutions designed mainly to keep incumbents in office this year are unlikely to build global energy structures that last.

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